

TOWN OF CLAYTON, OKLAHOMA
ANNUAL FINANCIAL REPORT
JUNE 30, 2013

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of the Board of Trustees
Town of Clayton
Clayton, Oklahoma

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Clayton, Oklahoma as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Clayton, Oklahoma's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statement.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Town of Clayton, Oklahoma as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The Town of Clayton, Oklahoma has not presented Management's Discussion and Analysis or budgetary comparisons that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

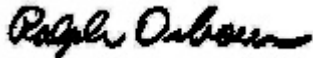
Other Information

My audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise Town of Clayton, Oklahoma's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated April 11, 2016, on my consideration of Town of Clayton, Oklahoma's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Clayton, Oklahoma's internal control over financial reporting and compliance.

Sincerely,



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
March 13, 2017

TOWN OF CLAYTON, OKLAHOMA
STATEMENT OF NET POSITION
JUNE 30, 2013

	Primary Government		
	Governmental	Business	
	Activities	Type	
	Activities	Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 64,811	\$ 177,019	\$ 241,830
Accounts receivable	43,392	59,444	102,836
Accrued interest receivable	-	20	20
Grant receivable	-	10,593	10,593
Total current assets	<u>108,203</u>	<u>247,076</u>	<u>355,279</u>
Non-current assets:			
Restricted cash - Customer deposits	-	21,001	21,001
Restricted cash - Debt reserve	-	8,647	8,647
Investments	24,903	18,666	43,569
Restricted investments -			
Customer deposit	-	13,717	13,717
Capital assets, net	<u>201,257</u>	<u>1,045,393</u>	<u>1,246,650</u>
Total non-current assets	<u>226,160</u>	<u>1,107,424</u>	<u>1,333,584</u>
Total assets	<u>334,363</u>	<u>1,354,500</u>	<u>1,688,863</u>
LIABILITIES			
Current liabilities:			
Accounts payable	3,054	29,278	32,332
Payroll liabilities	14,171	2,175	16,346
Accrued interest payable	-	4,719	4,719
Lease purchase, current	3,264	-	3,264
Notes payable, current	-	31,241	31,241
Total current liabilities	<u>20,489</u>	<u>67,413</u>	<u>87,902</u>
Non-current liabilities:			
Customer deposits payable	-	32,332	32,332
Lease purchase, non-current	9,973	-	9,973
Notes payable, non-current	-	519,141	519,141
Total non-current liabilities	<u>9,973</u>	<u>551,473</u>	<u>561,446</u>
Total liabilities	<u>30,462</u>	<u>618,886</u>	<u>649,348</u>
NET POSITION			
Capital assets, net of related debt	201,257	495,011	696,268
Restricted for			
Debt service	-	8,647	8,647
Customer deposits	-	34,718	34,718
Unrestricted	102,644	197,238	299,882
Total net Position	<u>\$ 303,901</u>	<u>\$ 735,614</u>	<u>\$ 1,039,515</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF CLAYTON, OKLAHOMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Function/Programs	Expenses	Program Revenue			(Expenses) Revenue
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
General government	\$ 477,944	\$ -	\$ 29,502	\$ -	\$ (448,442)
Public service	4,908	-	-	-	(4,908)
Public safety	37,394	-	-	-	(37,394)
Ambulance	26,045	-	-	-	(26,045)
Street and alley	4,666	-	4,693	-	27
Total governmental activities	550,957	-	34,195	-	(516,762)
Business-type activities					
Public Works	507,905	275,516	108,979	-	(123,410)
Total business-type activities	507,905	275,516	108,979	-	(123,410)
Total primary government	<u>\$1,058,862</u>	<u>\$ 275,516</u>	<u>\$ 143,174</u>	<u>\$ -</u>	<u>\$ (640,172)</u>

Primary Government		
Governmental Activities	Business-type Activities	Total

Changes in net Position:

Net (expense) revenue	\$ (516,762)	\$ (123,410)	\$ (640,172)
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General revenues

Taxes			
Sales tax	365,360	-	365,360
Franchise tax	15,203	-	15,203
Cigarette tax	4,625	-	4,625
Donations	405	-	405
Lot sales	1,750	-	1,750
Pilot tax	1,450	-	1,450
Interest	329	135	464
Charges for ambulance	154,289	-	154,289
Fines	24,264	-	24,264
Transfers, net	(82,803)	82,803	-
Payroll reimbursement	22,447	-	22,447
Other revenue	3,379	-	3,379
Total general revenue and transfer	510,698	82,938	593,636
Change in net Position	(6,064)	(40,472)	(46,536)
Net position - beginning	309,965	776,086	1,086,051
Net position - ending	<u>\$ 303,901</u>	<u>\$ 735,614</u>	<u>\$ 1,039,515</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF CLAYTON, OKLAHOMA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013

	General Fund	Total Governmental Fund
ASSETS		
Cash and cash equivalents	\$ 64,811	\$ 64,811
Investments	24,903	24,903
Accounts receivable	<u>43,392</u>	<u>43,392</u>
TOTAL ASSETS	<u>\$ 133,106</u>	<u>\$ 133,106</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	\$ 3,054	\$ 3,054
Payroll liabilities	<u>14,171</u>	<u>14,171</u>
TOTAL LIABILITIES	<u>17,225</u>	<u>17,225</u>
FUND BALANCES		
Unrestricted	<u>115,881</u>	<u>115,881</u>
TOTAL FUND BALANCES	<u>115,881</u>	<u>115,881</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 133,106</u>	

Reconciliation of Balance Sheet - Governmental funds
with the Statement of Net Position:

Amounts reported in the statement of net position
are different because:

Capital assets used in governmental activities
are not financial resources and therefore are
not reported as assets in governmental funds.

Capital assets	475,503	
Accumulated depreciation	<u>(274,246)</u>	<u>201,257</u>

Certain long-term liabilities are not due and payable
from current financial resources and, therefore, are not
reported in the funds:

Capital lease obligation payable	<u>(13,237)</u>
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Total net position	<u>\$ 303,901</u>
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The accompanying notes are an integral part of these financial statements.

TOWN OF CLAYTON, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Total Governmental Fund
Revenue		
Sales tax	\$ 365,360	\$ 365,360
Franchise tax	15,203	15,203
Auto tax	4,693	4,693
Cigarette tax	4,625	4,625
Alcoholic tax	29,502	29,502
Charges for ambulance	154,289	154,289
Fines	24,264	24,264
Miscellaneous	3,379	3,379
Donations	405	405
Lot sales	1,750	1,750
Pilot tax	1,450	1,450
Interest	329	329
Payroll reimbursement	<u>22,447</u>	<u>22,447</u>
Total revenue	<u>627,696</u>	<u>627,696</u>
Expenditures		
Current		
General government	442,594	442,594
Public service	4,908	4,908
Public safety	37,394	37,394
Ambulance	26,045	26,045
Street and alley	<u>4,666</u>	<u>4,666</u>
Total expenditures	<u>515,607</u>	<u>515,607</u>
Excess (deficiency) of revenue over (under) expenditures	112,089	112,089
Other financing sources (uses)		
Transfer to other funds	<u>(82,803)</u>	<u>(82,803)</u>
Net changes in fund balances	29,286	29,286
Fund balances, beginning	<u>86,595</u>	<u>86,595</u>
Fund balances, ending	<u>\$ 115,881</u>	<u>\$ 115,881</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF CLAYTON, OKLAHOMA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Net changes in fund balances - total governmental funds \$ 29,286

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those cost are shown in the combined statement of net assets and allocated over their estimated useful lives as annual depreciation in the statement of activities. This is the amount by which capital outlay exceeds depreciation outlay in the period.

Depreciation expense	(44,961)	
Capital outlay	<u>22,848</u>	<u>(22,113)</u>

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the fund. Long-term liabilities at year end consist of:

Lease obligations	<u>(13,237)</u>
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Change in net position	<u>\$ (6,064)</u>
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The accompanying notes are an integral part of these financial statements.

TOWN OF CLAYTON, OKLAHOMA
STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2013

	<u>Public Works</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 177,019
Accounts receivable	59,444
Accrued interest receivable	20
Grant receivable	<u>10,593</u>
Total current assets	<u>247,076</u>
Non-current assets	
Restricted cash - Customer deposit	21,001
Restricted cash - Debt reserve	8,647
Investments	18,666
Restricted investments - Customer deposit	13,717
Capital assets, net	<u>1,045,393</u>
Total non-current assets	<u>1,107,424</u>
Total assets	<u>1,354,500</u>
LIABILITIES	
Current liabilities:	
Accounts Payable	29,278
Payroll liabilities	2,175
Accrued interest payable	4,719
Note payable, current	<u>31,241</u>
Total current liabilities	<u>67,413</u>
Non-current liabilities:	
Customer deposits payable	32,332
Notes payable, non-current	<u>519,141</u>
Total non-current liabilities	<u>551,473</u>
Total liabilities	<u>618,886</u>
NET POSITION	
Capital assets, net of related debt	495,011
Restricted for:	
Debt service	8,647
Customer deposits	34,718
Unrestricted	<u>197,238</u>
Net position of business-type activities	<u>\$ 735,614</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF CLAYTON, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Public Works</u>
<u>OPERATING REVENUES</u>	
Charges for services	\$ 269,386
Other revenues	6,130
Total operating revenues	<u>275,516</u>
<u>OPERATING EXPENSES</u>	
Salaries and wages	56,822
Water costs	96,114
Sanitation	41,631
Wastewater	13,605
Maintenance	3,487
Materials and supplies	10,295
Other services and charges	8,985
Insurance	8,606
Professional fees	3,678
Utilities and telephone	10,461
Depreciation	127,312
Total operating expenses	<u>380,996</u>
Operating income (loss)	<u>(105,480)</u>
<u>NON-OPERATING REVENUE (EXPENSES)</u>	
Grant revenue	108,979
Grant expense	(108,979)
Interest revenue	135
Interest on notes payable and fees	(17,930)
Total non-operating revenue (expenses)	<u>(17,795)</u>
Income (loss) before transfer	<u>(123,275)</u>
Transfer from other funds	82,803
Total Transfers	<u>82,803</u>
Change in net position	(40,472)
Total net position, beginning	<u>776,086</u>
Total net position, ending	<u>\$ 735,614</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF CLAYTON, OKLAHOMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Public Works</u>
Cash flows from operating activities	
Cash received from customers	\$ 275,516
Cash payments to employees	(56,822)
Cash payments to suppliers for goods and services	(238,601)
Net cash provided (used) by operating activities	<u>(19,907)</u>
Cash flows from capital and related financing activities	
Loan proceeds	430,407
Grant revenue	108,979
Grant expense	(108,979)
Acquisition of fixed assets	(198,089)
Interest paid on notes payable and fiscal fees	(17,930)
Principal paid on notes payable	(254,677)
Net cash used for capital and related financing activities	<u>(40,289)</u>
Cash flows from investing activities	
Transfer to investments	(85)
Interest revenue	135
Sales tax allocation - transfer	82,803
Net cash provided by investing activities	<u>82,853</u>
Net change in cash and investments	22,657
Cash and cash equivalents, beginning	<u>184,010</u>
Cash and cash equivalents, ending	<u>\$ 206,667</u>
Reconciliation of operating income (loss) to net cash provided/(used) by operating activities:	
Operating income (loss)	\$ (105,480)
Adjustments to reconcile operating income to net cash provided/(used) by operating activities:	
Depreciation	127,312
Changes in assets and liabilities:	
(Increase)/decrease in accounts receivable	(7,553)
(Increase)/decrease in grant receivable	(10,593)
Increase/(decrease) in accounts payable	(31,115)
Increase/(decrease) in payroll liabilities	2,175
Increase/(decrease) in accrued interest payable	449
Increase/(decrease) in customer deposits	4,898
Net cash provided/(used) by operating activities	<u>\$ (19,907)</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF CLAYTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Clayton, Oklahoma, was incorporated under the provisions of the laws of the State of Oklahoma. The Town operates under a Board of Trustees form of government and provides the following services: general government, public safety, public works, parks and recreation. The basic financial statements include the departments, agencies, and other organizational units over which the Board of Trustees exercise oversight responsibility. In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include a component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14 and No. 39. Based on the criteria there are no component units to report. The definition of the financial reporting entity is primarily based on the concept of financial accountability. The financial reporting entity consists of the primary government (the Town), and activities for which the primary government is financially accountable, and the activities of Clayton Public Works. Financial accountability exists if a primary government appoints a voting majority of an organizations governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide a specific financial benefit to, or impose specific financial burdens on, the primary government. Based upon the application of these criteria, there are no other entities to include in the Town's financial statements.

Clayton Public Works Authority was created under the provisions of Title 60 Oklahoma Statutes Sections 176 to 180. The Authority is managed by a Board of Trustees made up of members of the Town Board of Trustees. The Authority operates sanitation and sewer services for the Town of Clayton. The Authority is reported as a proprietary fund.

The accounting policies of the Town conform to accounting principles generally accepted in the United States of America applicable to government units.

Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the Town as a whole excluding fiduciary activities such as employee pension plans. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Town general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

TOWN OF CLAYTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A functional program is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Town's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these programs uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements of the Town are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the Town are prepared in accordance with generally accepted accounting principles (GAAP). The Town's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Town's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to Town departments. Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements and financial statements of Town component units also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues, if any, are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Town considers revenues to be available if they are collected within 30 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

TOWN OF CLAYTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements include revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charged to customers for sales or services. Principal operating expenses are the cost of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as needed.

FUND TYPES AND MAJOR FUNDS

The Town reports the following major governmental funds:

General Fund - The general fund reports as the primary fund of the Town. This fund is used to account for all financial resources not reported in other funds.

Proprietary Funds - The Town reports the following major enterprise funds:

Clayton Public Works Authority - The Authority provides certain utility services for the Town.

Budgetary Accounting and Control

Annually a legally adopted budget is prepared for the General Fund and other governmental funds and an operating budget forecast is prepared for the Public Works Authority Funds. The budgets are formally approved by the Board of Trustees before filing with the State of Oklahoma. Actual expenditures within the General Fund may not legally exceed the adopted budget appropriations at the object category level within the department of a fund.

Investments

The Town follows Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires marketable securities to be carried at fair value. The Town considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The investments reported in the financial statements consist of Certificates of Deposits.

TOWN OF CLAYTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriations, is employed in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances.

Inventories and Prepaids

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. Proprietary funds and similar component unit inventories are recorded at the lower of cost or market on a first-in, first-out basis. The Town has not maintained inventory records, however, the value of inventory on hand at June 30, 2013 is not believed to be material. The Town is working to update and maintain an inventory list.

Prepaids record payments to vendors that benefit future reporting periods and are also reported on the consumption basis. Both inventories and prepaids are not reported in the government-wide and fund financial statements.

Capital Assets, Depreciation, and Amortization

The Town's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The Town maintains infrastructure assets records consistent with all other capital assets. Proprietary and component unit capital assets are also reported in their respective fund and combining component units financial statements. Donated assets are stated at fair value on the date donated. The cost of normal maintenance and repairs that do not add to the assets value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are moved from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follow:

Buildings	20-100
Improvements, other than buildings	20-100
Infrastructure	25-50
Machinery and equipment	3-25

TOWN OF CLAYTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Compensated Absences

It is the Town's policy to allow permanent and full-time employees to accumulate earned but unused vacation and sick pay benefits up to certain limits. These amounts are accrued, for which the employee is vested that would be paid upon termination are charged to expense and a corresponding liability is established when earned. The portion of the liability that is anticipated to be paid within the next fiscal year is reported as a current liability, while the remainder is reported as a long-term liability.

Reserves and Designations

Reserves represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of counterparty, the Town will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Town, and are held by counterparty or the counterparty's trust department but not in the name of the Town. The Town's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of June 30, 2013, all of the Town's deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Deposits

The Town had deposits at financial institutions with a carrying amount of approximately \$328,764 at June 30, 2013. The bank balance of the deposits at June 30, 2013 was approximately \$336,868.

Credit Risk

Fixed-income securities are subject to credit risk. However, the Town did not have fixed income securities at June 30, 2013.

TOWN OF CLAYTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Trustees monitor's the investment performance on an ongoing basis to limit the Town's interest rate risk. As of June 30, 2013, the Town's deposits consisted of demand deposits and certificates of deposit with a maturity of 12 months or less.

NOTE C - ACCOUNTS RECEIVABLE

The Authority records the total due on utility accounts owed the proprietary fund for services unpaid at June 30. No allowance for bad debt is recorded as all accounts are considered collectible.

The governmental funds have accrued sales tax, use tax, gasoline excise tax, and cigarette tax to be received in July and August. Franchise tax, alcoholic beverage tax, and motor vehicle excise tax are accrued for amounts to be received in July.

NOTE D - RESTRICTED CASH AND INVESTMENTS

The Clayton Public Works Authority has reported the following restricted cash and investments:

Restricted Cash - Customer deposits	\$ 21,001
Restricted Investments - Customer deposits	13,717
Rural Development Reserve	<u>8,647</u>
 Total Restricted	 <u>\$ 43,365</u>

NOTE E - CAPITAL LEASES

The City has entered into lease agreements as lessee for financing the acquisition of equipment. The lease agreements qualify as capital leases for accounting purposes since title transfers at the end of the lease term and it has been recorded at the present value of the future minimum lease payments. The lease contains a clause which gives the City the ability to terminate the lease agreement at the end of each fiscal year.

Capital lease transactions for the year ended June 30, 2013 are as follows:

Payable at July 1, 2012	Additions	Retirements	Balance at June 30, 2013
\$ -	\$ 13,500	\$ (263)	\$ 13,237
<u>\$ -</u>	<u>\$ 13,500</u>	<u>\$ (263)</u>	<u>\$ 13,237</u>

TOWN OF CLAYTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

The schedule of future minimum lease payments under the capital leases and the present value of the net minimum lease payments at June 30, is as follows:

Year Ending June 30	Truck	Total
2014	3,264	3,264
2015	3,264	3,264
2016	3,264	3,264
2017	3,264	3,264
2018	3,264	3,264
2019-2020	5,712	5,712
Total minimum lease payment	22,032	22,032
Less: Amount representing interest	8,795	8,795
Total	<u>\$ 13,237</u>	<u>\$ 13,237</u>

NOTE E - NOTES PAYABLE PROPRIETARY FUND

The following is a summary of the long-term debt transactions of the City for the year ended June 30, 2013:

	Balance at July 1, 2012	Retirements/ Additions	Balance at June 30, 2013
Rural Development	\$ -	\$ 416,915	\$ 416,915
Rural Development	135,533	(2,066)	133,467
Rural Development	80,964	(80,964)	-
Communities Unlimited	99,660	(99,660)	-
Communities Unlimited	58,494	(58,494)	-
Total	<u>\$ 374,651</u>	<u>\$ 175,731</u>	<u>\$ 550,382</u>

A brief description of the outstanding notes payable at June 30, 2013 is set forth below:

<u>Outstanding</u>	<u>Amount</u>
Rural Development loan dated October 13, 2009, original loan amount of \$1,697,000, interest rate 1.875%, payable in monthly installments of \$5,041. As of June 30, 2013, the Town had drawn down a total of \$430,407 and repayment began in May 2013.	416,915
Rural Development loan dated March 31, 1999, original loan amount of \$150,000, interest rate 4.75%, payable in monthly installments of \$705.	<u>133,467</u>
Total	<u>\$ 550,382</u>

TOWN OF CLAYTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

The annual principal payments due over the next five years and thereafter are as follows. Actual debt service requirements will vary depending on the variable interest rate in effect at the time of payment.

Year ending June 30	Rural Development		Total
	Principal	Interest	
2014	\$ 31,241	\$ 37,711	\$ 68,952
2015	31,896	37,056	68,952
2016	32,567	36,385	68,952
2017	33,351	35,601	68,952
2018	33,956	34,996	68,952
2019-2023	180,941	163,819	344,760
2024-2028	201,270	143,490	344,760
2029-2033	224,286	120,474	344,760
2034-2038	250,435	94,325	344,760
2039-2043	272,371	64,634	337,005
2044-2048	264,822	37,638	302,460
2049-2053	259,839	11,044	270,883
Total	<u>\$ 1,816,975</u>	<u>\$ 817,173</u>	<u>\$ 2,634,148</u>

The Authority incurred interest of \$17,930 on long-term debt during the year.

NOTE G - CAPITAL ASSETS

The following table provides a summary of changes in capital assets:

	CAPITAL ASSETS, DEPRECIATED				Capital Assets Not Depreciated Land
	Buildings	Infrastructure & Improvements Other Than Buildings	Furniture, Machinery, And Equipment	Totals	
PRIMARY GOVERNMENT					
Governmental activities					
Balance, June 30, 2012	\$ -	\$ -	\$ 452,655	\$ 452,655	\$ -
Increases	-	-	22,848	22,848	-
Decreases	-	-	-	-	-
Balance, June 30, 2013	-	-	475,503	475,503	-
Accum. Deprec.					
Balance, June 30, 2012	-	-	229,285	229,285	
Increase	-	-	44,961	44,961	
Decreases	-	-	-	-	
Balance, June 30, 2013	-	-	274,246	274,246	
Governmental activities Capital Assets, Net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 201,257</u>	<u>\$ 201,257</u>	<u>\$ -</u>
Business-type activities					
Balance, June 30, 2012	\$ 10,150	\$ 58,785	\$ 2,627,837	\$ 2,696,772	\$ 256,894
Increases	-	191,289	6,800	198,089	-
Decreases	-	-	-	-	-
Balance, June 30, 2013	10,150	250,074	2,634,637	2,894,861	256,894
Accum. Deprec.					
Balance, June 30, 2012	4,739	1,470	1,972,842	1,979,051	
Increase	677	1,470	125,165	127,312	
Decreases	-	-	-	-	
Balance, June 30, 2013	5,416	2,940	2,098,007	2,106,363	
Business-type Activities Capital Assets, Net	<u>\$ 4,734</u>	<u>\$ 247,134</u>	<u>\$ 536,630</u>	<u>\$ 788,498</u>	<u>\$ 256,894</u>
PRIMARY GOVERNMENT Capital Assets, Net	<u>\$ 4,734</u>	<u>\$ 247,134</u>	<u>\$ 737,887</u>	<u>\$ 989,755</u>	<u>\$ 256,894</u>

TOWN OF CLAYTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

DEPRECIATION EXPENSE

Depreciation expense was charged to functions of the primary government as follows:

GOVERNMENT ACTIVITIES		BUSINESS-TYPE ACTIVITIES
General government	\$ 44,961	Utilities
		\$ 127,312

NOTE H - PENSION OBLIGATIONS

Oklahoma Firefighter's Pension and Retirement System

The Town participates in this statewide, cost-sharing, multiple-employer benefit plan on behalf of firefighters. The system is administered by an agency of the State of Oklahoma and funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. The following is a summary of eligibility factors, contribution methods, and benefit provisions.

	<u>Oklahoma Firefighter's Pension And Retirement System</u>
Eligibility to Participate	All full-time or voluntary Firefighters of a participating Municipality hired before age 45
Authority establishing contribution obligation and benefit provisions	State Statute
Plan members' contribution rate	8% of covered payroll
Town's contribution rate	13% of covered payroll/\$60 per volunteer
Period required to vest	10 years
Benefits and eligibility for distribution (full time)	20 years credited service, 2 ½% of final average salary multiplied by the years of credited service with a maximum of 30 years considered; If vested, at or after age 50, or after 10 but before 20 years of Credited service, with reduced benefits
Benefits and eligibility for distribution (Volunteer)	20 years credited service equal to \$5.46 per month per year of service With a maximum of 30 Years considered
Deferred retirement option	Yes, 20 years credited service with Continued service for 30 or more years
Provisions for:	
Cost of living adjustments (normal retirement)	Yes, if vested by 5/83
Death (duty, non-duty, post-retirement)	Yes
Disability	Yes
Cost of living allowances	Yes

Contributions required by State Statute:

Fiscal <u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2013	\$ 900	100%
2012	\$ 720	100%

TOWN OF CLAYTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE I - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town carries commercial insurance for risk of loss, including workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE J - FEDERAL AND STATE GRANTS

In the normal course of operations, the Town receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authorities the purpose of which is to ensure compliance with conditions precedent to the granting of the funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and Members of the Board of Trustees
Town of Clayton
Clayton, Oklahoma

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Clayton, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Clayton, Oklahoma's basic financial statements, and have issued my report thereon dated April 11, 2016 which did not include Management's Discussion and Analysis or budgetary comparison schedules.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Town of Clayton, Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Clayton, Oklahoma's internal control. Accordingly, I do not express an opinion of the effectiveness of Town of Clayton, Oklahoma's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned cost, we identified certain deficiencies in internal control that we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses, reference number 2013-1, 2013-2, 2013-3, 2013-4 and 2013-5.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies, reference number 2013-1, 2013-2, 2013-3, 2013-4 and 2013-5.

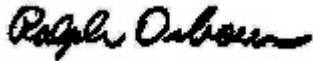
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Clayton, Oklahoma's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2013-1, 2013-2, 2013-3, 2013-4 and 2013-5.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion of the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
March 13, 2017

TOWN OF CLAYTON, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013

2013-1 - Monthly minutes

Condition: The Town could not provide minutes for all monthly meetings.

Criteria: Oklahoma Open Meetings Act Section 312(A) requires written minutes of public bodies be kept by a designated individual and be made available for public inspection.

Cause: The Town clerk may not be properly trained in Oklahoma Open Meetings Act requirements.

Effect: The Town violated the Oklahoma Open Meetings Act.

Recommendation: The Town should retain minutes of all meetings covered by the Oklahoma Open Meetings Act.

2013-2 - Town and Public Works minutes

Condition: The Town of Clayton and Clayton Public Works Authority are separate legal entities. Town and Public Works Authority meetings were held together instead of being held separately. In some meetings, the Town approved Public Works items in the Town meeting instead of in the Public Works portion of the meeting.

Criteria: The Town and Authority are required to conduct meetings in accordance with the Oklahoma Open Meetings Act.

Cause: The Town may have violated the Oklahoma Open Meetings Act by failing to vote on items in the correct meeting.

Recommendation: The Town should hold the Town and Public Works meetings separately to ensure they are voting on Public Works items in the Public Works meeting.

2013-3 - Collateral Pledge

Condition: The Town had deposits exceeding FDIC Insurance at one bank.

Criteria: The Town is required to obtain a collateral pledge to cover the excess funds above the FDIC Insurance.

Cause: The bank failed to pledge securities to cover the amount over FDIC Insurance.

Recommendation: The Town should obtain a collateral pledge to cover excess funds.

2013-4 - Reconciliations

Condition: The Town is not using bank reconciliations properly. The balance in the bank reconciliations are not matched with the balance reported in the General Ledger.

Criteria: The Town should properly perform and utilize bank reconciliations each month.

Cause: The Town has old outstanding items that do not clear the bank and are voided at a later date to clear the transactions.

TOWN OF CLAYTON, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013

Effect: The outstanding is likely due to double entries from transferring between accounts and to dummy accounts. These outstanding checks and deposits on the reconciliations are making the accounts appear overstated or understated.

Recommendation: The Town should properly use and maintain the reconciliations each month to ensure that they are correct and have a clear understanding of what the bank account balance is. This is a part of good internal control for the Town to monitor the account balances and transactions.

2013-5 - Overstating of revenues and expenditures

Condition: The Town uses dummy accounts to show revenues and expenses for each fund. The Town also runs transfers between accounts through revenue and expense. The Town also will put water expenses into water revenue which understates both water revenue and water expense.

Criteria: The Town should not run transfers between accounts through revenue and expense accounts and should use classes or sub expense and revenue accounts. The Town should show revenues and expenses separately.

Cause: The transfers between bank accounts and to dummy accounts are double entered to show the income/expense into the bank account and the revenue/expense account, but then adjusted to move the money to a different bank account or dummy account and ran through revenue/expense again.

Effect: The double entries to transfer money between bank accounts and Dummy accounts causes an overstatement in revenues and expenses.

Recommendation: The Town should consider more training with the accounting software.